

Staff Report

**APRIL MODIFICATION**

**FYs 2022-2026**

May 27, 2022



**NEW YORK STATE  
FINANCIAL CONTROL BOARD**

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## I. Overview

Economic conditions in the city indicate improvement but the recovery remains uneven. The April modification projects continued expansion in the city's employment level in 2022 reaching prepandemic levels by the third quarter of 2024 but warns wage earnings will likely fall in the last quarter of 2022 along with lower Wall Street profits. It is also expected residential real estate will moderate in both of 2022 and 2023 as housing prices remain elevated and mortgage rates rise. In 2023, commercial real estate office vacancy rates are expected to peak and asking rents are projected to decline through the year.

A full economic recovery to prepandemic levels is still developing for the city. Among the hardest hit economic areas are the market for commercial real estate and tourism. Demand in the commercial office space market remains low and vacancy rates stay high. Many private sector office workers continue to telework, slowing the need for firms to lease office space, particularly for less desirable properties. Tourism is making a slower recovery due to recent COVID-19 waves harming Broadway attendance and hotel demand. NYC & Co projects an estimated 56.4 million visitors for 2022, which is a 71 percent increase over 2021 and about 85 percent of the 2019 peak. At this rate, the city estimates it could take another two years for tourism to return to a healthy level.

The April modification assumes steady revenue growth over the financial plan period for FYs 2023-26. In FY 2022, total-funded revenue increases by \$2.4 billion compared to the February modification to \$109 billion from \$106.5 billion led by improved nonproperty taxes of \$1.6 billion and federal aid of \$1.1 billion. In the outyears of the plan, total-funded revenue between FYs 2023-26 grows by \$2.7 billion to \$102.3 billion from \$99.7 billion due to stronger property tax collections. While economic conditions in the city have shown improvement, a full recovery to prepandemic levels remains distant. The salient risks to the economic outlook continue to be the COVID-19 pandemic, the war in Ukraine, high inflation, and rising interest rates.

Total-funded expenditures, net of prepayment for debt service and retiree healthcare expenses in FY 2023, are expected to increase from \$99.7 billion in FY 2023 to \$106 billion in FY 2026, representing average annual growth of 2.1 percent compared to the average annual growth of total revenue at 0.9 percent. This disparity in growth rates results in budget gaps of \$3.9 billion, \$3.4 billion and \$3.7 billion over FYs 2024-26, respectively. These gaps may rise substantially if revenue growth continues to be outpaced by expenditure growth. Based on our risk analysis of the current modification, the gaps could be higher, rising to \$4.2 billion in FY 2024, \$3.6 billion in FY 2025 and \$3.8 billion in FY 2026.

The city adds \$1.5 billion to the FY 2022 surplus bringing its total to about \$5.3 billion and increases its deposit to the rainy day fund to \$700 million, which will boost the reserve to \$1.2 billion. The financial plan also assumes general and capital stabilization reserves of \$1.3 billion in FY 2023 and \$1.25 billion in each of FYs 2024-26. Agency spending increases in each of FYs 2022-26, significantly climbing in FY 2023 to fund several initiatives and outreach programs. The city also restores funding to the labor

reserve removed at the height of the pandemic to cover assumed wage increases in the next round of collective bargaining but will likely need to add considerably more to cover the full cost of the next bargaining round. Unfortunately, the modification assumes little in savings to offset spending increases relying on mainly savings from debt service. Moreover, the city has yet to map out a way to pay for programs and initiatives financed with federal stimulus funds beyond FY 2025 nor does it replace funds removed from the Retiree Health Benefits Trust. The city must remain diligent in its effort to reduce costs to manage outyear gaps identifying savings of recurring value through the implementation of regular Programs to Eliminate the Gap.

With the April modification, the city released a five-year capital plan for FYs 2022-26 amounting to \$95 billion in total-funded authorized commitments, a \$5 billion decrease from the record high level of \$100 billion in commitments projected in the February modification. The capital commitments in the February five-year plan that the city determined not achievable were reforecast to the outyears of the ten-year capital program. The city has continued to manage its capital program by redistributing commitments into later years of the ten-year program rather than establishing a capital program that is sustainable and practically manageable. Consequently, we urge the city to undertake a more realistic and prudent approach to its capital planning process.

**APRIL MODIFICATION:  
THE CITY'S OPERATING PROJECTIONS FOR  
FISCAL YEARS 2022-2026**

**TABLE 1** (\$ in millions)

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b><u>Revenues</u></b>					
Taxes:					
General Property	\$29,427	\$31,200	\$31,692	\$31,826	\$31,836
Other Taxes	35,344	34,343	35,523	37,114	38,533
Tax Audit Revenue	871	722	722	722	721
Miscellaneous Revenues	7,354	7,246	7,258	7,265	7,285
Unrestricted Intergovernmental Aid	792	252	--	--	--
Less: Intracity Revenues	(2,253)	(1,972)	(1,939)	(1,929)	(1,928)
Disallowances	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Total City Funds	\$71,520	\$71,776	\$73,241	\$74,983	\$76,432
Other Categorical Grants	1,173	1,029	1,016	1,015	1,012
Interfund Revenues	686	735	731	730	730
Federal Categorical Grants	19,128	9,356	8,677	7,958	6,975
State Categorical Grants	<u>16,462</u>	<u>16,757</u>	<u>16,891</u>	<u>17,136</u>	<u>17,189</u>
<b>Total Revenues</b>	<b><u>\$108,969</u></b>	<b><u>\$99,653</u></b>	<b><u>\$100,556</u></b>	<b><u>\$101,822</u></b>	<b><u>\$102,338</u></b>
<b><u>Expenditures</u></b>					
Personal Service	\$53,020	\$53,593	\$54,149	\$54,527	\$55,040
Other Than Personal Service	51,602	44,183	42,914	42,730	42,318
General Obligation, Lease & TFA Debt Service	6,685	7,816	8,119	8,630	9,407
Budget Stabilization & Prepayments	(835)	(5,272)	--	--	--
Capital Stabilization Reserve	--	250	250	250	250
General Reserve	50	1,055	1,000	1,000	1,000
Deposit to the Rainy Day Fund	<u>700</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Subtotal	\$111,222	\$101,625	\$106,432	\$107,137	\$108,015
Less: Intracity Expenditures	<u>(2,253)</u>	<u>(1,972)</u>	<u>(1,939)</u>	<u>(1,929)</u>	<u>(1,928)</u>
<b>Total Expenditures</b>	<b><u>\$108,969</u></b>	<b><u>\$99,653</u></b>	<b><u>\$104,493</u></b>	<b><u>\$105,208</u></b>	<b><u>\$106,087</u></b>
<b><u>Gap To Be Closed</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(\$3,937)</u></b>	<b><u>(\$3,386)</u></b>	<b><u>(\$3,749)</u></b>

**CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR  
FISCAL YEARS 2022-2026  
APRIL MODIFICATION COMPARED TO FEBRUARY MODIFICATION**

TABLE 2 (\$ in millions)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
<b><u>Revenues</u></b>					
Taxes:					
General Property	\$19	\$310	\$543	\$500	\$448
Other Taxes	1,643	82	(381)	(481)	(93)
Tax Audit Revenue	(50)	1	1	1	--
Miscellaneous Revenues	104	266	222	200	193
Unrestricted Intergovernmental Aid	(252)	252	--	--	--
Less: Intracity Revenues	(100)	(122)	(91)	(91)	(90)
Disallowances	--	--	--	--	--
Total City Funds	<u>\$1,364</u>	<u>\$789</u>	<u>\$294</u>	<u>\$129</u>	<u>\$458</u>
Other Categorical Grants	24	16	10	10	11
Interfund Revenues	(44)	1	(1)	(1)	(1)
Federal Categorical Grants	1,114	(29)	33	30	73
State Categorical Grants	(28)	340	249	248	246
<b>Total Revenues</b>	<b><u>\$2,430</u></b>	<b><u>\$1,117</u></b>	<b><u>\$585</u></b>	<b><u>\$416</u></b>	<b><u>\$787</u></b>
<b><u>Expenditures</u></b>					
Personal Service	(\$445)	\$686	\$696	\$788	\$884
Other Than Personal Service	1,514	2,219	1,342	1,044	923
General Obligation, Lease & TFA Debt Service	(79)	(126)	(146)	(173)	(190)
Budget Stabilization & Prepayments	1,540	(1,540)	--	--	--
Capital Stabilization Reserve	--	--	--	--	--
General Reserve	(200)	--	--	--	--
Deposit to the Rainy Day Fund	200	--	--	--	--
Subtotal	<u>\$2,530</u>	<u>\$1,239</u>	<u>\$1,892</u>	<u>\$1,659</u>	<u>\$1,617</u>
Less: Intracity Expenditures	(100)	(122)	(91)	(91)	(90)
<b>Total Expenditures</b>	<b><u>\$2,430</u></b>	<b><u>\$1,117</u></b>	<b><u>\$1,801</u></b>	<b><u>\$1,568</u></b>	<b><u>\$1,527</u></b>
<b>Change to the Gap Decrease/(Increase)</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(\$1,216)</u></b>	<b><u>(\$1,152)</u></b>	<b><u>(\$740)</u></b>



## RISKS TO THE FINANCIAL PLAN

TABLE 3 (\$ in millions, positive numbers are offsets to risks)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
<b>Stated Financial Plan Gap</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$3,937)</b>	<b>(\$3,386)</b>	<b>(\$3,749)</b>
<b><u>Estimation</u></b>					
Property Tax Revenue	0	150	200	250	300
Nonproperty Tax Revenue	750	500	250	250	300
Uniformed Services Overtime	<u>(234)</u>	<u>(679)</u>	<u>(690)</u>	<u>(690)</u>	<u>(690)</u>
<b>Risk Total</b>	<b>\$516</b>	<b>(\$29)</b>	<b>(\$240)</b>	<b>(\$190)</b>	<b>(\$90)</b>
<b>Total FCB Estimated Surplus/(Gap)</b>	<b>\$516</b>	<b>(\$29)</b>	<b>(\$4,177)</b>	<b>(\$3,576)</b>	<b>(\$3,839)</b>

## **II. Review of April Modification FYs 2022-26**

The April modification assumes steady revenue growth over the financial plan period for FYs 2023-26. In FY 2022, total-funded revenue increases by \$2.4 billion compared to the February modification to \$109 billion from \$106.5 billion led by improved nonproperty taxes of \$1.6 billion and federal aid of \$1.1 billion. In the outyears of the plan, total-funded revenue between FYs 2023-26 grows by \$2.7 billion to \$102.3 billion from \$99.7 billion due to stronger property tax collections.

While economic conditions in the city have shown improvement, a full recovery to prepandemic levels remains distant. The city projects continued expansion in employment levels through 2024 but warns wage earnings will likely fall in the last quarter of 2022 along with lower Wall Street profits. It is also expected residential real estate will moderate in both of 2022 and 2023 as housing prices remain elevated and mortgage rates rise. In 2023, commercial real estate office vacancy rates are expected to peak and asking rents are projected to decline through the year. Risks continue to be present such as the surge in COVID-19 cases, the war in Ukraine, high inflation, and rising interest rates.

Total-funded expenditures, net of prepayment for debt service and retiree healthcare expenses in FY 2023, are expected to increase from \$99.7 billion in FY 2023 to \$106 billion in FY 2026, representing average annual growth of 2.1 percent compared to the average annual growth of total revenue at 0.9 percent. This disparity in growth rates results in budget gaps of \$3.9 billion, \$3.4 billion and \$3.7 billion over FYs 2024-26, respectively. Based on our risk analysis, the gaps could be higher at \$4.2 billion in FY 2024, \$3.6 billion in FY 2025 and \$3.8 billion in FY 2026.

The city adds \$1.5 billion to the FY 2022 surplus bringing its total to about \$5.3 billion and increases its deposit to the rainy day fund to \$700 million, which will boost the reserve to \$1.2 billion. Agency spending increases in each of FYs 2022-26 significantly climbing in FY 2023 to fund several initiatives and outreach programs. The city also restores funding to the labor reserve removed at the height of the pandemic to cover assumed wage increases in the next round of collective bargaining. Unfortunately, the modification assumes little in savings to offset spending increases relying on mainly savings from debt service. Moreover, the city has yet to map out a way to pay for programs and initiatives financed with federal stimulus beyond FY 2025 nor does it replace funds removed from the Retiree Health Benefits Trust.

With the April modification, the city released a five-year capital plan for FYs 2022-26 amounting to \$95 billion in total-funded authorized commitments, a \$5 billion decrease from the record high level of \$100 billion in commitments projected in the February modification. The capital commitments in the February five-year plan that the city determined were not achievable were reforecast to the outyears of the ten-year capital program. The city has continued to manage its capital program by redistributing commitments into later years of the program rather than establishing a capital program that is sustainable and practically manageable. Consequently, we urge the city to undertake a more realistic and prudent approach to its capital planning process.

## **ECONOMIC AND REVENUE OUTLOOK**

### **The U.S. Economy**

After growing at its fastest rate in decades, the national economy contracted in the first quarter of 2022. The latest advanced estimate for gross domestic product (GDP) released on April 28, 2022, by the Bureau of Economic Analysis (BEA) shows real GDP decreased at an annualized rate of 1.4 percent in the first quarter of 2022, following an annualized increase of 6.9 percent in the fourth quarter of 2021. The reversal reflects a broadening trade imbalance, sluggish inventory investment, and reduction in government spending that outweighs growth in consumer and business spending. According to the BEA report, consumers increased spending on health care, financial and insurance services, housing, and utilities, in addition to durable goods led by cars and recreational vehicles. Businesses bolstered spending for equipment, research, and development.

Household consumption has been buoyed by higher wages and healthy balance sheets despite a rapid rise in prices for most consumer goods and services. The Bureau of Labor Statistics (BLS) reported the Consumer Price Index (CPI) increased 0.3 percent in April 2022. Over the past 12 months, the CPI increased 8.3 percent, slightly lower than March 2022 at 8.5 percent due to a fall in gas prices. Price inflation is being driven by a tight labor market, supply-chain disruptions, extraordinary fiscal stimulus, and the war in Ukraine. In response, the Federal Reserve (Fed) has so far raised its targeted federal funds rate, the rate of interest banks charges each other for overnight loans, to a range between 0.75 and one percent, and has signaled further increases could be warranted. The monetary tightening has pushed up mortgage rates and caused steep drops in stock and bond prices.

The Fed views the economy strong enough to absorb more interest rate hikes to lower inflation without causing a recession, known as a “soft-landing,” based on the robust labor market that continues to create jobs. However, this expanding labor market is putting pressure on wages bolstering consumer demand and helping to keep prices elevated. Average hourly earnings have increased by 5.5 percent over the last 12 months. The April employment report released on May 6, 2022 by the BLS shows that employment increased by 428,000 jobs leaving the unemployment rate unchanged at 3.6 percent compared to March 2022. This marks the twelfth month in a row that job gains have topped 400,000. Notable in the jobs report is a reduction in the number of people in the labor force, which indicates that people have either moved to the sidelines even though job openings are plentiful or have retired. While employment is still down 1.2 million jobs from its prepandemic level in February 2020, the ability of employers to attract workers with higher pay is proving to be difficult, which may be part of the reason why the economy contracted in the first quarter of 2022.

### **The City Economy**

The city’s economy has improved substantially in the two years since the onset of the pandemic; however, employment levels lag the nation by a significant margin. Nationally, continued robust hiring has driven down the unemployment rate to 3.6

percent as reported by the BLS for April 2022, the lowest it has been since December 2019. In contrast, the city's unemployment rate is at 6.4 percent, far higher than the national rate and greater than the state at 4.5 percent.<sup>1</sup> While unemployment remains high, job growth in the city has climbed considerably from its March 2021 level when unemployment was at 11.3 percent.

A full economic recovery to prepandemic levels is still developing for the city. Among the hardest hit economic areas are the market for commercial real estate and tourism. Demand in the commercial office space market remains low and vacancy rates stay high. Many private sector office workers continue to telework slowing the need for firms to lease office space, particularly for less desirable properties. In fact, the average office occupancy in the city is at only 37 percent of its prepandemic baseline.<sup>2</sup> Despite low occupancy of currently leased properties, new leasing activity has improved, particularly for higher quality properties. Tourism, however, is making a slower recovery due to recent COVID-19 waves harming Broadway attendance and hotel demand. NYC & Co projects an estimated 56.4 million visitors for 2022, which is a 71 percent increase over 2021 and about 85 percent of the 2019 peak.<sup>3</sup> At this rate, the city estimates it could take another two years for tourism to return to a healthy level.

In general, economic conditions in the city indicate improvement but recovery remains bumpy. The April modification projects continued expansion in the city's employment level in 2022 reaching prepandemic levels by the third quarter of 2024 but warns wage earnings will likely fall in the last quarter of 2022 along with lower Wall Street profits.<sup>4</sup> It is also expected residential real estate will moderate in both of 2022 and 2023 as housing prices remain elevated and mortgage rates rise. In commercial real estate, office vacancy rates are expected to peak and asking rents to decline in 2023. The salient risks to the economic outlook continue to be the COVID-19 pandemic, the war in Ukraine, and the Fed's ability to achieve a so called "soft-landing," that is, to reduce inflation without pushing the economy into recession.

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<sup>1</sup> Unemployment data released by the BLS is seasonally adjusted to remove the effects of recurring seasonal influences from the economic series.

<sup>2</sup> According to the most recently available office turnstile data presented in the April 2022 financial plan modification from Kastle Systems, a property management company in the city.

<sup>3</sup> NYC & Company is the official destination marketing organization and convention and visitors bureau for the city's five boroughs.

<sup>4</sup> On a full-year basis, wage earnings are expected to grow by 6.3 percent in 2022. Since Wall Street bonuses are paid in the fourth quarter and first quarter of the following year, the downshift in bonuses anticipated in 2022 will hit in those quarters creating the fourth quarter drop noted. Full-year wage growth is still projected to grow 1.7 percent and employment is forecast to grow by 4.7 percent, which leads to the continued growth in wage earnings.

## Revenue Forecast for FY 2022

Since the February modification, total-funded revenue increases \$2.43 billion in FY 2022 to \$108.969 billion from \$106.539 billion led by improved nonproperty taxes of \$1.643 billion and federal aid of \$1.114 billion, as shown in the figure to the right. Federal aid continues to flow to the city, which is mainly in the form of stimulus funds and COVID-19 reimbursements. State aid and other categorical grants are expected to fall by \$28 million and \$20 million, respectively.<sup>5</sup> The April modification projects an increase in total city-funded revenues of \$1.364 billion in FY 2022 that includes a modest rise in property tax and miscellaneous revenue of \$19 million and \$4 million, respectively, and lower tax audit revenue and intergovernmental aid of \$50 million and \$252 million, respectively.<sup>6</sup>

February to April Modification Revenue Changes FY 2022 (\$ in millions)	
Property Tax	\$19
Nonproperty Taxes	1,643
Tax Audit	(50)
<b>Subtotal Taxes</b>	<b>\$1,612</b>
Miscellaneous	4
Intergovernmental	(252)
<b>Total City</b>	<b>\$1,364</b>
Federal	1,114
State	(28)
Other	(20)
<b>Total Revenue</b>	<b>\$2,430</b>
Miscellaneous and other adjusted for intracity and interfund transfers.	

## Nonproperty Taxes

Nonproperty taxes, encompassing numerous tax categories, are higher than forecasted in the February modification by \$1.643 billion increasing from \$33.701 billion to \$35.344 billion, as shown in the figure to the right. Almost all these tax categories have increased from February plan estimates apart from commercial rent, which fell \$34 million, due to elevated vacancy rates in the commercial real estate market. The banking corporation and cigarette taxes, and STAR aid are projected to remain unchanged.

February to April Modification Nonproperty Changes FY 2022 (\$ in millions)	
Personal Income	\$534
General Corporation	264
Unincorporated Business	60
Banking Corporation	0
Sales	414
Hotel Occupancy	30
Commercial Rent	(34)
Real Property Transfer	137
Mortgage Recording	174
Utility	9
Cigarette	0
All Other	55
STAR Aid	0
<b>Total Nonproperty</b>	<b>\$1,643</b>

As detailed in the figure, the largest increase in nonproperty tax revenue is in personal income tax (PIT), which is higher by \$534 million increasing to \$14.716 billion from \$14.182 billion. Changes in the latest FY 2022 PIT projection primarily reflect higher estimates for withholding, the amount of tax taken from employee paychecks, and installment payments based on year-to-date collections from gains in wage and nonwage income. The withholding increase is attributable to higher employment, wages, and Wall Street bonuses.

<sup>5</sup> Other categorical grants are adjusted down by \$44 million in interfund agreements.

<sup>6</sup> Miscellaneous revenue is adjusted down by \$100 million in intracity revenues. The city rolled \$252 million of unrestricted aid received from Federal Emergency Management Agency (FEMA) reimbursements from FY 2022 to FY 2023 that were part of \$750 million of FEMA funds allocated in the November 2021 financial plan.

The city's estimate for PIT is greatly impacted by the profits of Wall Street firms. The average bonus paid to employees in the city's securities industry for 2021 grew to \$257,500, a 20 percent jump over the previous year's record high of \$213,700.<sup>7</sup> Bonuses have been driven by strong security industry profits that totaled \$58.3 billion in 2021, the second highest year on record, surpassing profits in 2020 of \$50.9 billion. Wall Street profits have also contributed to the boost in the general corporation tax (GCT), which is up by \$264 million in FY 2022 rising to \$4.873 billion in the April modification compared to \$4.609 billion in the February modification.

Elsewhere, sales tax revenue is revised upward by \$414 million to \$8.129 billion. The strength in sales tax revenue results from vigorous consumer spending and the continued but slow return of tourist activity. Collections were not hampered by the Omicron variant as much as originally anticipated, as the local economy continues to recover faster than expected. Two other notable areas of revenue growth are the estimates for the mortgage recording and real estate transactions taxes, which increase by \$174 million and \$137 million, respectively. The higher collections are supported by transaction timing and high demand for housing that have heightened mortgage originations and refinancing activity during the first half of 2022 as people rushed to lock in the lower interest rates. Based on current collections, the city's FY 2022 forecast could be exceeded by \$750 million in the nonproperty taxes, as shown in Table 3 on page 5.

#### **Federal, state, and other categorical aid**

The April modification assumes federal funding increases by \$1.114 billion in FY 2022 compared to the February modification but falls dramatically by \$29 million in FY 2023 due to the decrease in pandemic relief funds. In FYs 2024-26, the city expects an increase in federal aid of \$33 million, \$30 million, and \$72 million, respectively. Most of the federal aid in FY 2022 is stimulus funding totaling \$1.01 billion consisting of \$459 million from the Federal Emergency Management Agency, \$430 million from the American Rescue Plan Act (ARPA), \$30 million of additional ARPA to support ferry transportation, and \$100 million from the Emergency Connectivity Fund Award. State aid is expected to decrease in FY 2022 by \$28 million but other categorical aid increases by \$24 million.

#### **Revenue Growth over the Financial Plan FYs 2023-26**

The April modification projects total-funded revenue between FYs 2023-26 to grow from \$99.653 billion to \$102.338 billion, an increase of \$2.685 billion, or 2.7 percent, as shown in Table 4 on page 11. Over the four years, average annual growth is 0.9 percent. Between FYs 2023 and 2026, the primary source of growth is nonproperty taxes at 12.2 percent in contrast to property tax collections at just two percent. The modification shows tax audit revenue to remain relatively flat declining by just 0.1 percent and miscellaneous revenues decreasing by 3.1 percent. Federal aid is projected to decline by 25.4 percent as

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<sup>7</sup> The Office of the New York State Comptroller.

the receipt of federal stimulus recedes but is partially offset by state aid increasing by 2.6 percent.

TABLE 4

### PROJECTED TOTAL-FUNDED REVENUE GROWTH FYs 2023-26

Total Funds (yr./yr. percent change, \$ in millions)

	FYs 2023-24	FYs 2024-25	FYs 2025-26	FYs 2023-26	Level in FY 2023	Level in FY 2026	Avg Yr. Growth
General Property Tax	1.6%	0.4%	0.0%	2.0%	\$31,200	\$31,836	0.7%
Nonproperty Tax	3.4%	4.5%	3.8%	12.2%	34,343	38,533	3.9%
Tax Audit Revenue	0.0%	0.0%	(0.1%)	(0.1%)	722	721	0.0%
<b>Subtotal Taxes</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>7.3%</b>	<b>\$66,265</b>	<b>\$71,090</b>	<b>2.4%</b>
Miscellaneous	(3.8%)	0.3%	0.4%	(3.1%)	5,511	5,342	(1.0%)
<b>Total City Funds</b>	<b>2.0%</b>	<b>2.4%</b>	<b>1.9%</b>	<b>6.5%</b>	<b>\$71,776</b>	<b>\$76,432</b>	<b>2.1%</b>
Federal	(7.3%)	(8.3%)	(12.4%)	(25.4%)	9,356	6,975	(9.3%)
State	0.8%	1.5%	0.3%	2.6%	16,757	17,189	0.9%
Other	(1.0%)	(0.1%)	(0.2%)	(1.2%)	1,764	1,742	(0.4%)
<b>Total Revenue</b>	<b>0.9%</b>	<b>1.3%</b>	<b>0.5%</b>	<b>2.7%</b>	<b>\$99,653</b>	<b>\$102,338</b>	<b>0.9%</b>
Miscellaneous Revenue is adjusted for Unrestricted Intergovernmental Aid, Disallowance Against Categorical Aid, and Intracity Revenues. Other includes Categorical Grants and Interfund Agreements.							

### Nonproperty Taxes

Nonproperty taxes lead all other revenue categories in growth at 12.2 percent between FYs 2023 and 2026, for average annual growth of 3.9 percent, as displayed in Table 4. The strongest gains are expected for real property transfer and mortgage recording taxes with growth of 21 percent and 16.3 percent, respectively, over the financial plan period. Much of that higher revenue is based on strong residential activity. Over the course of the plan, however, the city expects the residential market to soften due to rising interest rates and dwindling housing inventory that will both contribute to fewer transactions.

Also classified as nonproperty taxes, personal income taxes (PIT) are projected to grow from \$14.491 billion in FY 2023 to \$15.869 billion in FY 2026, an increase of \$1.378 billion, or 9.5 percent, with average annual growth of 3.1 percent. Although collections are higher, the city assumes that withholding and estimated payments will decrease due to underlying economic factors including a sharp decline in security industry profits, as well as the ending of federal stimulus funding.

The city includes in its PIT forecast the impact of the Pass-Through Entity Tax (PTET) introduced in 2022, which is expected to alter some taxpayer behavior. The state authorized this optional tax that partnerships and S-Corporations in the city may elect to pay beginning on, or after, January 2023. The PTET is expected to help taxpayers save on federal taxes considering the federal cap on state and local tax (SALT) deductions.<sup>8</sup> While this new tax is expected to be revenue neutral for the city, as taxpayers opt into the PTET,

<sup>8</sup> The state and local tax (SALT) deduction permits taxpayers who itemize when filing federal taxes to deduct certain taxes paid to state and local governments. The Tax Cuts and Jobs Act capped it at \$10,000 per year, consisting of property taxes plus state income or sales taxes, but not both.

it is expected that they will reduce their quarterly PIT installment payments by an equivalent amount. The PTET implementation is anticipated to trigger a downward shift in the overall level of estimated payments as long as the federal cap on the deductibility of SALT is in effect until 2025.

In addition, the PIT forecast includes legislation from the enacted state budget that authorizes the expansion of the Earned Income Tax Credit (EITC), a new Childcare Center Property Tax Abatement, and a Childcare Business Tax Credit. The expansion of the EITC is baselined at \$250 million annually starting in FY 2023, and the Childcare Center Property Tax Abatement and Childcare Business Tax Credit are both baselined at \$25 million each beginning in FY 2024.<sup>9</sup> The enacted state budget also extends the intercept of sales tax collections for the Distressed Provider Assistance Account over FYs 2023-25 at a total cost of \$450 million, and authorizes additional tax relief to small businesses reducing PIT by \$10 million in FY 2022 and baselined at \$20 million annually thereafter.<sup>10</sup>

Beyond PIT, the city expects sales tax revenue to increase by 15.7 percent between FYs 2023 and 2026 for an average annual growth of five percent. The upbeat forecast reflects a healthy labor market with steady growth in wage earnings, a return of tourism to prepandemic levels, and a stable macro economy. Also forecasted to expand briskly over FYs 2023-26 are the unincorporated business and general corporation taxes at 13.1 percent and 10.2 percent, respectively. However, the city anticipates these business tax collections will fall off between FYs 2022-23 mostly due to a drop in Wall Street profits. The growth in the outyears of the financial plan for FYs 2023-26 reflects a quick recovery in these tax revenues. Based on current collections and economic trends, the city's nonproperty tax forecast could be exceeded by \$500 million in FY 2023, \$250 million in each of FYs 2024 and 2025, and \$300 million in FY 2026, as presented in Table 3 on page 5.

In contrast, cigarette tax revenue is anticipated to decline by 11.1 percent over the financial plan years. The high rate of cigarette taxes has led to a noticeable decline in the number of packs sold within the city. The higher tax rate has either diverted purchases to jurisdictions outside the city with lower tax rates or prompted a change in behavior to seek other alternatives.

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<sup>9</sup> The EITC is a federal credit that was previously matched by the city and state up to five percent of the credit. Under the revised state law, the match has been increased to up to 30 percent. The Childcare Property Tax Abatement is directed to property owners in the city to support the creation of new childcare centers or expand existing centers. The Child Business Tax Credit is an incentive to businesses in exchange for providing or expanding childcare slots.

<sup>10</sup> The state legislature passed a law that required the Office of the New York State Comptroller to withhold sales tax collections and place them in the Distressed Provider Assistance account. The funds are used to support financially distressed hospitals and nursing homes throughout the state.



## Property Taxes

In the April modification, the city increases property tax projections by \$310 million, \$543 million, \$500 million and \$448 million over FYs 2023-26, respectively. In the release of the February modification, property tax projections reflected the rebound in market value and taxable billable assessed value citywide based on the FY 2023 tentative assessment roll.<sup>11</sup> At that time, the city assumed a larger-than-usual reduction of \$8.3 billion in taxable billable assessed value from the tentative to final assessment roll from Tax Commission actions, Department of Finance changes by notice, and the completion of exemption processing. In the current modification, the city estimates this reduction to be \$3.1 billion, resulting in the city increasing its property tax collection projections beyond the last modification. With the release of the FY 2023 final property tax assessment roll, a more detailed analysis will be presented.

As presented in Table 4 on page 11, property tax revenue is expected to grow from \$31.2 billion in FY 2023 to \$31.836 billion in FY 2026, an increase of \$636 million, or two percent. Annual property tax growth drops to 1.6 percent in FY 2024 from the six percent growth rate in FY 2023. On a year-to-year basis, property tax growth further slows to 0.4 percent in FY 2025 to no growth in FY 2026. The city is projecting a prolonged recovery for both Class 2 and Class 4 properties, contributing to the flat growth in property taxes in FYs 2024-26. Due to reduced tourism and fewer daily commuters in the city, commercial categories such as retail and hotel properties as well as office buildings included in Class 4 have been slow to recover. Based on current collections and historical trends, the city's property tax forecast may be exceeded by \$150 million in FY 2023, \$200 million in FY 2024, \$250 million in FY 2025, and \$300 million in FY 2026, as shown in Table 3 on page 5.

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<sup>11</sup> The Department of Finance is required to determine market and assessed values for all properties in the city annually and issue a tentative property tax assessment roll each year on January 15. State law requires that the Department of Finance assign every property to one of four tax classes. Class 1 consists of one-, two- and three-family residential properties and small condominiums. Class 2 comprises all other residential properties, including cooperatives, condominiums, and multi-family rentals. Class 3 represents utility real properties. Class 4 consists of all other real properties, such as office buildings, factories, stores, and vacant lands.

## **EXPENDITURE FORECAST**

Between the February and April modifications for FY 2022, total-funded expenditures are expected to grow from \$106.539 billion to \$108.969 billion, an increase of \$2.43 billion, as shown in the figure to the right. The increase encompasses net city spending of \$1.364 billion and net federal, state, and other-funded spending of \$1.066 billion.

<b>February to April Modification Expenditure Changes FY 2022</b>	
Total Funds (\$ in millions)	
<b>February Modification</b>	<b>\$106,539</b>
City Funds	1,364
Federal, State & Other Funds	<u>1,066</u>
<b>Total Expense Increase</b>	<b>\$2,430</b>
<b>April Modification</b>	<b>\$108,969</b>

### **City-Funded Expenditure Changes February to April Modification for FY 2022**

The April modification assumes a net increase in city-funded expenses of \$1.364 billion, bringing costs to \$71.52 billion compared to \$70.156 billion in the February modification, as shown in the figure to the right. The increase in city-funded outlays is largely the addition of \$1.54 billion of surplus funds raising the surplus in FY 2022 to \$5.272 billion, which will be used to prepay debt service and retiree healthcare expenses in FY 2023.

<b>February to April Modification Expenditure Changes FY 2022</b>	
City Funds (\$ in millions)	
<b>February Modification</b>	<b>\$70,156</b>
Surplus Funds	1,540
Rainy Day Fund	200
Agencies	180
Labor Reserve	119
Savings	(208)
Pensions	(205)
General Reserve	(200)
Debt Service	<u>(62)</u>
<b>Net City-Funded Increase</b>	<b>\$1,364</b>
<b>April Modification</b>	<b>\$71,520</b>

Besides the additional surplus, elevated spending in FY 2022 is attributable to the increased contribution to the rainy day fund, agency new needs, and added funding to the labor reserve. The city adds \$200 million to the rainy day fund bringing total contributions to \$700 million in FY 2022. In early 2021, the city established a rainy day fund, known as the Revenue Stabilization Fund that was authorized by changes in state law and the city charter. This move made available about \$500 million in resources that could not be used to balance the city's budget previously. With the added \$700 million, the fund now stands at \$1.2 billion.

Funding of agency new needs, partially offset by budget adjustments, adds a net \$180 million to FY 2022 expenditures. Much of the new needs go to uniformed and social service agencies at \$175 million and \$106 million, respectively. Included in new needs are monies to cover the designation of Juneteenth as a paid city holiday.<sup>12</sup> The cost to fund expenses related to the holiday is \$74 million in FY 2022 baselined to \$148 million annually beginning in FY 2023.

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<sup>12</sup> Juneteenth, which falls on June 19<sup>th</sup>, marks the anniversary of the day federal troops arrived in Galveston, Texas in 1865 to announce that all enslaved people were free. Coming two and half years after President Abraham Lincoln issued the Emancipation Proclamation, it is recognized as the effective end of slavery in the United States. It is widely considered the longest-running African American holiday. On October 14, 2020, Juneteenth was officially designated as a state holiday and on June 17, 2021, as a federal holiday.

To partially restore funding to the labor reserve, the city allocates the projected cost of 0.5 percent wage increases for the first and second year in the next round of collective bargaining. The budget impact to cover the wage hikes is \$119 million in FY 2022, \$238 million in FY 2023, \$365 million in FY 2024, \$445 million in FY 2025, and \$495 million in FY 2026. The first two years of the next round were removed at the height of the pandemic to help mitigate the economic impact of COVID-19 on the city's finances. Beyond the funding of the first two years, the labor reserve includes funds for one percent wage increases in the next round of collective bargaining beginning in the third year of the contract period.

Reductions that partly offset higher city-funded spending total \$675 million. The city realizes \$208 million of agency savings in FY 2022 generated chiefly from the reestimate of personal service expenses. The reversal of a planned audit of the pension system reduces pension costs by \$205 million and drawdown of the general reserve yields \$200 million. The April modification also assumes debt service savings of \$62 million.

### **Federal, State and Other-Funded Expenditure Changes February to April Modification for FY 2022**

The April modification contains a net increase in federal, state, and other-funded expenses of \$1.066 billion. Making up the entirety of the increase are federal funds of \$1.114 billion that are partially reduced by lower state and other funds of \$28 million and \$20 million, respectively. In FY 2022, most federal aid comes from stimulus totaling \$1.01 billion that consists mainly of \$459 million from Federal Emergency Management Agency, \$430 million from the American Rescue Plan Act (ARPA), \$30 million in additional ARPA to support the ferries, and \$100 million from the Emergency Connectivity Fund Award.

### **The FYs 2023-26 Financial Plan February to April Modification**

In its February modification, the city projected total-funded expenditures would grow from \$98.536 billion in FY 2023 to \$104.56 billion in FY 2026, or \$6.024 billion. The April modification assumes expenditures over the same period grow by a higher amount from \$99.653 billion to \$106.087 billion, or \$6.434 billion, as shown in Table 5.

**FEBRUARY TO APRIL MODIFICATION EXPENDITURE CHANGES FYs 2023-26**

TABLE 5

Total Funds (\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026
<b>February Modification</b>	<b>\$98,536</b>	<b>\$102,692</b>	<b>\$103,640</b>	<b>\$104,560</b>
City Funds	\$789	\$1,510	\$1,281	\$1,198
Federal, State & Other Funds	328	291	287	329
<b>Total Expense Increase</b>	<b>\$1,117</b>	<b>\$1,801</b>	<b>\$1,568</b>	<b>\$1,527</b>
<b>April Modification</b>	<b>\$99,653</b>	<b>\$104,493</b>	<b>\$105,208</b>	<b>\$106,087</b>

### **City-Funded Expenditure Changes February to April Modification FYs 2023-26**

City-funded expenditures, as shown in Table 6 on page 16, are projected to rise between the February and April modifications by \$789 million in FY 2023, \$1.51 billion in FY 2024, \$1.281 billion in FY 2025, and \$1.198 billion in FY 2026.

## FEBRUARY TO APRIL MODIFICATION CHANGES FYs 2023-26

TABLE 6

City Funds (\$ in millions)				
	FY 2023	FY 2024	FY 2025	FY 2026
<b>February Modification</b>	<b>\$70,987</b>	<b>\$75,668</b>	<b>\$77,089</b>	<b>\$78,983</b>
Agencies	\$2,232	\$1,307	\$1,024	\$908
Labor Reserve	238	365	445	495
Savings	(15)	(15)	(15)	(15)
Debt Service	(126)	(147)	(173)	(190)
FY 2022 Prepayment	(1,540)	--	--	--
<b>Net City-Funded Increase</b>	<b>\$789</b>	<b>\$1,510</b>	<b>\$1,281</b>	<b>\$1,198</b>
<b>April Modification</b>	<b>\$71,776</b>	<b>\$77,178</b>	<b>\$78,370</b>	<b>\$80,181</b>

As shown in Table 6, agency expenses are expected to increase significantly in FY 2023 by \$2.232 billion but increase by much smaller amounts in each of FYs 2024-26 at \$1.307 billion, \$1.024 billion, and \$908 million, respectively. Added to agency expenses in FYs 2023-26 is funding of the labor reserve ranging from \$238 million to \$495 million. The higher spending over FYs 2023-26 is partially offset by agency and debt service savings, and the prepayment of debt service and retiree healthcare expenses in FY 2023.

The higher outlays for agency expenses over FYs 2023-26 support the expansion of various programs, initiatives, and outreach services. In FY 2023, the city adds funding of about \$537 million to support services such as foster care, Emergency Food Program, HIV/AIDS Services Administration (HASA) housing, rental assistance, Emergency Assistance to Families with Children, Mental Health Response Program, and Health + Hospitals test and trace.<sup>13</sup> In addition to these one-time allotments in FY 2023, the city allocates about \$700 million in each of FYs 2023-26 to fund programs such as Summer Rising, Organics, New York City Streets, Parks Improvement; cover the cost of the Juneteenth holiday; address safety concerns in the city by funding the Risk Management and Accountability System in the Department of Correction, the Subway Safety, B-Heard, and Street Health Outreach Plans; and to partially restore previous headcount savings.<sup>14</sup>

In FY 2023, full time employee headcount is anticipated to be 332,197, which is an increase of about 3,000 positions since the February modification. The increase in headcount includes the hiring of 774 and 577 positions in the Departments of Parks and Recreations, and Corrections, respectively. In addition, the city council adds 274 positions and the Fire Department 187 positions. The planned increases reduce the headcount

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<sup>13</sup> HASA connects people with HIV/AIDS to services that help them live healthier and independent lives. Emergency Assistance to Families with Children is a federally funded program, which provides a cash grant to deal with a crisis threatening a family with a child(ren), and to meet urgent needs resulting from a sudden occurrence or set of circumstances requiring immediate attention.

<sup>14</sup> The Subway Safety Plan lays out how the city will begin to address public safety concerns and support people that are experiencing homelessness and serious mental illness on the city's subway system. B-HEARD is the Behavioral Health Emergency Assistance Response Division and part of the city's commitment to treat mental health crises as public health problems.

savings taken in the February modification, which had budgeted for the elimination of more than 7,000 positions citywide.

### City and Total-Funded Expenditure Changes Between FYs 2022 and 2023

The April modification projects higher city-funded expenditures, net of prepayments, of \$257 million between FYs 2022 and 2023, as shown in the figure to the right. City-funded expenses increase by a net \$4.694 billion before \$4.438 billion in net prepayments are applied. The modification assumes spending increases across mostly all Service Agencies except for Health and Welfare, which decreases slightly. The modification projects higher year-to-year spending in miscellaneous and debt service expenses and a modest decrease in pension expense.<sup>15</sup> Reserves are increased by \$850 million net of \$105 million in citywide savings.

Total-funded expenditures in FY 2023 are projected at \$99.653 billion, which is \$9.315 billion lower than FY 2022 expenditures of \$108.969 billion. As shown in the figure, expenditures are driven down by lower federal aid, which falls by \$9.773 billion. The city is expecting higher state aid in FY 2023 compared to FY 2022 of \$295 million.

Expenditure Changes between FYs 2022 and 2023 City, Federal, State, & Other Funds (\$ in millions)			
	FY 2022	FY 2023	Change
<b>Service Agencies</b>	<b>\$45,159</b>	<b>\$47,535</b>	<b>\$2,375</b>
Uniformed	9,064	10,263	1,200
Health and Welfare	12,275	12,203	(72)
Mayoral	7,625	7,768	143
Covered Organizations	15,380	16,419	1,039
Elected Officials	816	882	66
<b>Other Expenditures</b>	<b>\$26,845</b>	<b>\$28,314</b>	<b>\$1,469</b>
Miscellaneous	10,747	11,159	413
Debt Service	6,515	7,634	1,119
Pensions	9,583	9,520	(62)
<b>Reserves and Savings</b>	<b>\$350</b>	<b>\$1,200</b>	<b>\$850</b>
Prior-Year Payables	(400)	--	400
General Reserve	50	1,055	1,005
Capital Stabilization	--	250	250
Rainy Day Fund	700	--	(700)
Citywide Savings	--	(105)	(105)
<b>Subtotal</b>	<b>\$72,354</b>	<b>\$77,049</b>	<b>\$4,694</b>
Prepayment Adjustment	(835)	(5,272)	(4,438)
<b>Total City Funds</b>	<b>\$71,520</b>	<b>\$71,776</b>	<b>\$257</b>
Federal Funds	\$19,128	\$9,356	(\$9,773)
State Funds	16,462	16,757	295
Other Funds	1,859	1,764	(95)
<b>Total Fed, State &amp; Other</b>	<b>\$37,449</b>	<b>\$27,877</b>	<b>(\$9,572)</b>
<b>Total Expenditures</b>	<b>\$108,969</b>	<b>\$99,653</b>	<b>(\$9,315)</b>
Debt service is net of prepayments. Numbers may not add due to rounding.			

### Projected Growth in Total-Funded Expenditures for FYs 2023-26

Total-funded expenditures, net of prepayment for debt service and retiree healthcare expenses in FY 2023, are expected to increase from \$99.653 billion in FY 2023 to \$106.087 billion in FY 2026, representing growth of \$6.434 billion, or 6.5 percent, as shown in Table 7 on page 18. Average annual growth over the four-year period is 2.1 percent. The growth is a result of higher spending in Salaries and Wages, Fringe Benefits, and Debt Service expenses. Partially offsetting the higher spending are lower Pensions and Other Than Personal Service (OTPS) costs.

<sup>15</sup> Between FYs 2022 and 2023, the \$1.1 billion growth in debt service is a manifestation of the high amount of debt that has been and is expected to be issued to support the city's capital program, as well as the application of conservative assumptions in projecting the costs of both fixed and variable rate financing. In FY 2023, the city and NYCTFA are projected to issue a combined total of \$9.1 billion in tax-supported bonds to fund capital projects.

TABLE 7

**PROJECTED TOTAL-FUNDED EXPENDITURE GROWTH FYs 2023-26**

Total Funds (yr./yr. percent change, \$ in millions)

	<b>FYs 2023-24</b>	<b>FYs 2024-25</b>	<b>FYs 2025-26</b>	<b>FYs 2023-26</b>	<b>Level in FY 2023</b>	<b>Level in FY 2026</b>	<b>Avg Yr. Growth</b>
<b>Personal Service</b>	<b>1.0%</b>	<b>0.7%</b>	<b>0.9%</b>	<b>2.7%</b>	<b>\$53,593</b>	<b>\$55,040</b>	<b>0.9%</b>
Salaries and Wages	0.2%	0.9%	1.3%	2.4%	31,276	32,033	0.8%
Pensions	(6.4%)	(9.6%)	(7.5%)	(21.8%)	9,665	7,561	(7.9%)
Fringe Benefits	8.8%	7.0%	4.9%	22.1%	12,652	15,446	6.9%
<b>Other Than Personal</b>	<b>(2.9%)</b>	<b>(0.4%)</b>	<b>(1.0%)</b>	<b>(4.2%)</b>	<b>\$44,184</b>	<b>\$42,319</b>	<b>(1.4%)</b>
Medical Assistance	0.0%	0.0%	0.0%	0.0%	6,385	6,385	0.0%
Public Assistance	0.0%	0.0%	0.0%	0.0%	1,650	1,650	0.0%
Other OTPS	(3.5%)	(0.5%)	(1.2%)	(5.2%)	36,149	34,284	(1.8%)
<b>Debt Service</b>	<b>3.9%</b>	<b>6.3%</b>	<b>9.0%</b>	<b>20.4%</b>	<b>\$7,816</b>	<b>\$9,407</b>	<b>6.4%</b>
<b>Reserves</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>\$1,305</b>	<b>\$1,250</b>	<b>--</b>
General	--	--	--	--	1,055	1,000	--
Capital Stabilization	--	--	--	--	250	250	--
<b>Other</b>							
Intracity Expenses	--	--	--	--	(1,972)	(1,928)	--
<b>Subtotal</b>	<b>(0.4%)</b>	<b>0.7%</b>	<b>0.8%</b>	<b>1.1%</b>	<b>\$104,926</b>	<b>\$106,087</b>	<b>0.4%</b>
Prepayment Adjustment	--	--	--	--	(5,272)	--	--
<b>Total Net of Prepayment</b>	<b>4.9%</b>	<b>0.7%</b>	<b>0.8%</b>	<b>6.5%</b>	<b>\$99,653</b>	<b>\$106,087</b>	<b>2.1%</b>
Debt service in FY 2023 is net of prepayments. Prepayment Adjustment is the prepayment of FY 2023 debt service and retiree healthcare expenses using FY 2022 surplus funds. Numbers may not add due to rounding.							

Fringe Benefits, net of prepayment, are expected to rise by 22.1 percent over FYs 2023-26, increasing by \$2.794 billion from \$12.652 billion to \$15.446 billion, as shown in Table 7. The average annual growth rate for this budget item is 6.9 percent over the plan period. Included in Fringe Benefits expenses are Social Security taxes (also known as FICA), unemployment insurance, supplemental welfare benefits, workers' compensation, and health insurance. The higher Fringe Benefits costs mainly reflects the projected increases in healthcare premiums.

The other area of growth is Debt Service, which is expected to increase by 20.4 percent over FYs 2023-26, as shown in Table 7. The April modification indicates the cost will grow by \$1.591 billion, rising from \$7.816 billion to \$9.407 billion, excluding prepaid Debt Service expenses of \$4.772 billion in FY 2023. For a more detailed discussion of the growth in debt service, see "The Capital Program and Debt Service Costs," starting on page 21.

**Projected Growth in City-Funded Expenditures for FYs 2023-26**

The April modification projects total city-funded expenditures, net of prepaid expenses, to grow by 11.7 percent, or \$8.405 billion, between FYs 2023 and 2026, increasing from \$71.776 billion to \$80.181 billion, as shown in Table 8 on page 19. The expected average annual growth rate over the plan period is 3.8 percent.

# PROJECTED CITY-FUNDED EXPENDITURE GROWTH FYs 2023-26

TABLE 8

City Funds (yr./yr. percent change, \$ in millions)

	FYs 2023-24	FYs 2024-25	FYs 2025-26	FYs 2023-26	Level in FY 2023	Level in FY 2026	Avg Yr. Growth
<b>Service Agencies</b>	<b>(1.0%)</b>	<b>1.6%</b>	<b>1.2%</b>	<b>1.7%</b>	<b>\$47,535</b>	<b>\$48,365</b>	<b>0.6%</b>
Uniformed	(0.8%)	0.1%	(0.1%)	(0.8%)	10,263	10,183	(0.3%)
Health and Welfare	(2.7%)	(0.2%)	0.2%	(2.6%)	12,203	11,881	(1.9%)
Mayoral	(2.7%)	(0.2%)	(0.5%)	(3.4%)	7,768	7,501	(1.2%)
Covered Organizations	1.2%	4.7%	3.4%	9.5%	16,419	17,983	3.1%
Elected Officials	(7.2%)	(0.1%)	0.0%	(7.3%)	882	818	(2.5%)
<b>Other Expenditures</b>	<b>2.4%</b>	<b>1.5%</b>	<b>4.2%</b>	<b>8.4%</b>	<b>\$28,209</b>	<b>\$30,566</b>	<b>2.7%</b>
Miscellaneous	8.7%	6.7%	8.4%	25.7%	11,054	13,895	7.9%
Debt Service	4.2%	6.5%	9.3%	21.2%	7,634	9,254	6.6%
Pensions	(6.5%)	(9.8%)	(7.7%)	(22.1%)	9,520	7,417	(8.0%)
<b>Reserves</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>\$1,305</b>	<b>\$1,250</b>	<b>--</b>
General Reserve	--	--	--	--	1,055	1,000	--
Capital Stabilization	--	--	--	--	250	250	--
<b>Subtotal</b>	<b>0.2%</b>	<b>1.5%</b>	<b>2.3%</b>	<b>4.1%</b>	<b>\$77,049</b>	<b>\$80,181</b>	<b>1.3%</b>
Prepayment Adjustment	--	--	--	--	(5,272)	--	--
<b>Total Net of Prepayment</b>	<b>7.5%</b>	<b>1.5%</b>	<b>2.3%</b>	<b>11.7%</b>	<b>\$71,776</b>	<b>\$80,181</b>	<b>3.8%</b>

Miscellaneous is adjusted for capital stabilization, energy, leases, inflation estimates, and savings initiatives. Debt service is net of prepayments. Prepayment Adjustment is net surplus roll between FYs 2022 and 2023. Numbers may not add due to rounding.

As shown in Table 8, Service Agencies grow by 1.7 percent over FYs 2023-26. Of the five budget categories in Service Agencies, all are decreasing apart from Covered Organizations, which is projecting growth of 9.5 percent. Covered Organizations encompass the Department of Education (DOE), City University of New York (CUNY) and Health + Hospitals. The April modification indicates city-funded spending in the DOE will rise by about \$1.75 billion, from \$14.441 billion in FY 2023 to \$16.191 billion in FY 2026, representing growth of approximately 12.1 percent. To support the CUNY system of colleges, the city is increasing its annual funding from \$991 million in FY 2023 to \$1.008 billion in FY 2026, or by 1.7 percent. In Health + Hospitals, the city's annual subsidy decreases by \$203 million over FYs 2023-26.

Also in Service Agencies are Uniformed Services (Police, Fire, Correction and Sanitation Departments) expenditures, which are expected to collectively decrease by 0.8 percent over the plan period. The four agencies are budgeted to spend a combined \$10.263 billion in FY 2023 dropping to \$10.183 billion in FY 2026, which is a relatively modest decline of \$80 million. The April modification assumes overtime spending for uniformed personnel, excluding civilians, of \$857 million in FY 2023 decreasing slightly to \$847 million in FY 2024 and to \$846 million in each of FYs 2025 and 2026. For FY 2022, the city anticipates much higher spending at \$1.302 billion, which is an increase of about \$300 million from the February modification. Of the FY 2022 increase, the Police and Fire Departments together account for two-thirds of the higher spending. Both Departments have experienced higher-than-average absenteeism due to the pandemic, which has pushed up overtime costs to cover longer work hours. In addition, the Police Department has stepped up its response to a surge in violent crimes that has required longer hours among police officers.

Through March 2022, actual overtime expenditures for uniformed personnel totaled \$1.152 billion, which is \$233 million more than through January 2022. Based on these actuals, we believe that the four agencies combined will log total overtime of \$1.536 billion by the end of FY 2022. Our risk assessment over the life of the plan, as shown in Table 3 on page 5, reflects \$234 million in FY 2022, \$679 million in FY 2023, and about \$690 million in each of FYs 2024-26.

In the Other Expenditures budget area, which includes Miscellaneous, Debt Service and Pension costs, projected growth is at 8.4 percent for FYs 2023-26. Much of that increase is driven by higher growth for Miscellaneous and Debt Service costs at 25.7 percent and 21.2 percent, respectively, partially offset by pension savings. The higher miscellaneous spending considers the year-to-year increase in health insurance premiums, and additional money to the labor reserve, rainy day fund, and judgment and claims.<sup>16</sup>

As shown in Table 8 on page 19, pension costs are expected to fall from \$9.52 billion in FY 2023 to \$7.417 billion in FY 2026, a decrease of \$2.103 billion, or 22.1 percent. The average annual decline over FYs 2023-26 is eight percent. The decrease is due to the strong returns the five actuarial pension funds earned in FY 2021 phased in over the life of the financial plan. For FY 2021, the system realized an aggregate return of 25.8 percent, which raised combined assets to \$266.084 billion, an increase of \$52.507 billion. A repeat of such performance is doubtful in FY 2022. As of March 2022, we estimate an aggregate return of just 0.09 percent, equating to an unexpected actuarial loss of 6.91 percent based on the seven percent required rate of return, or Actuarial Interest Rate (AIR).<sup>17</sup>

The pension systems' projected loss stems from one of the most punishing market sell-offs in years with global stock and fixed income indexes sliding to new lows for 2022, including other assets such as oil and bitcoin tumbling as well. Fixed income markets have been experiencing a rare correlation with equity markets. The market stumble hit most economic sectors in the U.S. with technology stocks hit particularly hard. Markets have been shaken this year by many worries such as inflation that is threatening robust consumer spending and slowing economic growth. After growing at its fast rate in decades, the national economy contracted in the first quarter of 2022. The Federal Reserve has begun to tighten monetary policy in response, which has increased the odds of a recession if rates are pushed up too quickly. Exacerbating these economic worries are

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<sup>16</sup> Effecting judgment and claims, the city reallocated some money in the budget to address the results of the *Gulino v. The Board of Education* lawsuit based on the piling of settlements and unexpected legal fees and higher associated taxes. This case is a class action lawsuit filed on behalf of public-school teachers of color challenging the use of discriminatory tests and licensing rules to deprive them of equal salaries, pensions, benefits, and seniority on November 8, 1996. Settlements are reduced by \$43 million in FY 2022, \$64 million in FY 2023, and \$135 million in FY 2024 but increased by \$150 million in each of FYs 2025 and 2026.

<sup>17</sup> The AIR is the required return on assets needed to fund future benefit payments earned by employees in the present.



persistent supply chain problems, spread of COVID-19, lockdown in China, and war in Ukraine.

There remains time until fiscal year end for improvement to occur; nevertheless, if the systems' combined asset return falls short of the AIR, the city will need to fund the shortfall, which increases pension costs. An unexpected actuarial loss or gain is phased in over a five-year period at 20 percent, 40 percent, 60 percent, 80 percent, and 100 percent. As of March 2022, the actuarial loss is estimated to be \$1.559 billion, which we project would increase pension costs by \$312 million in FY 2024, \$623 million in FY 2025, and \$935 million in FY 2026. We estimate, for every one percentage point below the AIR, pension costs could rise by \$45 million in FY 2024, \$90 million in FY 2025, and \$135 million in FY 2026.

## **THE CAPITAL PROGRAM AND DEBT SERVICE COSTS**

With the April modification, the city released a five-year capital plan for FYs 2022-26 amounting to \$95 billion in total-funded authorized commitments, a \$5 billion decrease from the record high level of \$100 billion in commitments projected in the February modification. According to the city, the reduction was needed to create a capital plan that reflects a more realistic and attainable project schedule in the financial plan years. The capital commitments projected in the February five-year plan that the city determined not achievable were reforecast to the outyears of the ten-year capital program, resulting in an overall increase of \$7.5 billion over FYs 2022-31.

We understand the city is required to meet the needs of an aging infrastructure in addition to catching up on work put on hold during PAUSE, resulting in sizeable annual commitment projections in the current capital plan. However, the city has continued to manage its capital program by redistributing commitments into later years of the ten-year program rather than establishing a capital program that is sustainable and practically manageable. Consequently, we urge the city to undertake a more realistic and prudent approach to its capital planning process.

The cost of the capital plan is represented in the city's operating budget in the form of debt service costs on the tax-supported bonds issued by the city and New York City Transitional Finance Authority (NYCTFA).<sup>18</sup> Given the growth in annual capital commitments, debt service costs will require an increasing portion of the city tax revenues over the financial plan period. In the current modification, the assumed debt service expense as a percentage of tax revenues is projected to remain below the affordability threshold of 15 percent in FYs 2022-26.

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<sup>18</sup> On May 12, 2022, Fitch Ratings revised the outlook on the city's AA-rated g.o. bonds to positive from stable citing improved revenue performance as the city sees a recovery from the COVID-19 pandemic. The rating agency also noted the improvement in budgeted reserve levels that would help mitigate against existing unknowns, such as geopolitical uncertainties and inflationary pressure.

## **Capital Program**

In the April modification, the city plans to undertake \$94.9 billion of total-funded authorized capital commitments (or contracts) in FYs 2022-26. This amount is a reduction of \$5.1 billion compared to the five-year plan released in February 2022.<sup>19</sup> As depicted in the figure to the right, the city decreased commitments in each year of the plan except for FY 2023. Even with the overall reduction, commitments remain substantial at \$21.8 billion in FY 2023 and \$20.6 billion in FY 2024.

Growth in FYs 2022-26 Capital Plan (\$ in millions)		
<u>FY</u>	<u>Total-Funded Commitments</u>	<u>Change</u>
2022	\$17,849	(\$1,780)
2023	21,800	1,127
2024	20,583	(826)
2025	18,441	(569)
2026	<u>16,211</u>	<u>(3,066)</u>
<b>Total</b>	<b>\$94,884</b>	<b>(\$5,114)</b>

To review the changes to the five-year capital plan, our analysis will focus on the adjustments to city-funded capital commitments in the individual areas compared to the capital plan released in the February modification. As shown in Table 9 on page 23, city-funded commitments were reduced by over \$5 billion with decreases in most areas being partially offset by increases in a couple of areas. The following is a summary detailing areas that received an adjustment of at least \$350 million to their city-funded authorized capital commitments.

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<sup>19</sup> The level of authorized commitments exceeds what the city expects to undertake to allow for potential delays, changes in scope and other adjustments to projects, while targeted commitments are amounts the city projects it can realistically accomplish.

**FYs 2022-2026 CITY-FUNDED CAPITAL COMMITMENTS DECREASE BY \$5  
BILLION COMPARED TO THE FEBRUARY MODIFICATION**

TABLE 9

(\$ in millions)

April 2022 Capital Plan FYs 2022-26	April 2022 City Funds	April 2022 Total Funds	Change from Feb. 2022 City Funds	Change from Feb. 2022 Total Funds
<b>Total Program</b>	<b>\$90,326</b>	<b>\$94,884</b>	<b>(\$5,084)</b>	<b>(\$5,114)</b>
Dept. of Transportation	10,720	12,075	(2,369)	(2,360)
Dept. of Parks & Recreation	3,930	4,350	(1,538)	(1,528)
Dept. of Environmental Protection	13,440	13,919	(906)	(894)
Dept. of Small Business Services	2,872	3,174	(742)	(748)
Public Buildings	1,062	1,066	(441)	(441)
Courts	1,041	1,051	(360)	(360)
Energy Efficiency & Citywide Equipment	6,246	6,699	764	762
Housing Preservation & Development	8,898	9,058	1,413	1,413
Other*	42,117	43,492	(906)	(960)
*Other includes Transit, Dept. of Education, City University, Housing Authority, Sanitation, Health & Hospital Corporation, Human Resources Administration, Children's Services, Homeless Services, Health, Aging, Correction, Police, Fire, Real Estate, Cultural Affairs, and Public Libraries. Numbers may not add due to rounding.				

In the April modification, the city-funded authorized commitments amounting to \$90.3 billion in FYs 2022-26 reflect a reduction of over \$5 billion compared to the February plan. The Department of Transportation, including commitments at \$10.7 billion, received the largest decrease to its five-year capital plan at a net \$2.4 billion, with funding for bridges shrinking by \$2.5 billion. This reduction includes less commitments for improvements to citywide highway bridges and structures by \$1.8 billion and for the reconstruction of Harlem River Drive ramp in Manhattan by approximately \$350 million.

The Department of Parks and Recreation's capital plan at \$3.9 billion is decreased by \$1.5 billion compared to the previous plan. About one third of the decrease, at \$508 million, relates to park improvements in all boroughs, while other major decreases, totaling over \$700 million, are in citywide park bridges, and recreation and nature centers, as well as for the construction and reconstruction of miscellaneous parks and playgrounds in Queens.

Capital commitments scheduled to be undertaken by the Department of Environmental Protection, totaling \$13.4 billion, are reduced by approximately \$900 million with two areas, sewers and water mains, making up majority of the decline. Commitments for sewers decrease by \$517 million, mostly in projects for high level storm sewers, and professional services for sanitary and combined drainage plan preparation. Water mains received \$349 million less funding primarily in projects involving water mains extensions, and improvements to structures including equipment on water sheds outside city.

Commitments for the Department of Small Business Services amounting to \$2.9 billion decrease in the April capital plan by \$742 million. The majority of the decline at \$540 million is in citywide infrastructure improvements supporting economic development including projects related to acquisitions, site development, construction and reconstruction, while \$124 million is in neighborhood redevelopment.

Two other areas with sizeable decreases in commitments are Public Buildings and Courts. City-funded commitments for Public Buildings at \$1 billion are reduced by \$441 million for various rehabilitation and renovation capital projects. The capital plan for Courts was lowered by \$360 million to about \$1 billion. The reduction included funding for the acquisition and construction of new court facilities as well as reconstruction of the existing court facilities.

In comparison to the previous FYs 2022-26 capital plan released in the February modification, city-funded authorized commitments are increased in a couple of areas, partially offsetting the prevailing decreases in most of the areas. Housing Preservation and Development's capital plan is increased by \$1.4 billion to \$8.9 billion. Most of the expansion at \$1.2 billion is additional funding to support the New York City Housing Authority (NYCHA) Permanent Affordability Commitment Together (PACT) program. Through PACT, developments are included in the federal Rental Assistance Demonstration (RAD) which allows NYCHA to unlock funding to complete comprehensive repairs, while also ensuring homes remain permanently affordable and residents have the same basic rights as they possess in the public housing program.<sup>20</sup>

Also receiving additional commitments is Energy Efficiency and Citywide Equipment with a net \$764 million increasing to \$6.2 billion. The capital commitments with the largest expansion at \$903 million are for energy efficiency and sustainability projects included in the city's comprehensive energy management strategy for roughly 4,000 buildings. The strategy involves funding sustainability measures to ensure resiliency throughout the city with cost-effective and energy-saving capital projects that target the individual needs of city agencies. In addition, citywide agency facility and operational protective measures gained a smaller funding level of \$123 million.

Although the city has overall decreased commitments in the current five-year capital plan, those reduced commitments were redistributed to the years beyond FY 2026. As a means to manage its capital program, it has become common practice for the city to reduce commitments in the plan years and reforecast those commitments to the latter five or six years of the ten-year program. As illustrated in Table 10 on page 25, while total-funded authorized commitments in FYs 2022-26 are reduced by \$5.1 billion, commitments in FYs 2027-31 are increased by \$12.7 billion, for a net expansion of \$7.5 billion over the

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<sup>20</sup> Rental Assistance Demonstration (RAD) is a major federal housing program created to allow local governments to get funding to upgrade public housing while still receiving public subsidies for low-income tenants. Through NYCHA's RAD transactions, NYCHA will also leverage other private and public financing sources to address its significant outstanding capital need.

ten-year program. Consequently, the authorized ten-year total-funded capital program has grown to \$157 billion in the April modification.

### CHANGES TO THE TOTAL-FUNDED AUTHORIZED TEN-YEAR CAPITAL PROGRAM SCHEDULE

TABLE 10 (\$ in millions)

Funding Source	Authorized Commitments		Changes from the February 22 Plan		
	Ten-Year April 2022	Ten-Year Feb 2022	Five Years FYs 22-26	Five Years FYs 27-31	Total FYs 22-31
GO/NYCTFA	\$125,820	\$118,410	(\$4,178)	\$11,588	\$7,410
NYW	<u>25,266</u>	<u>25,138</u>	<u>(906)</u>	<u>1,035</u>	<u>128</u>
City-Funded	\$151,086	\$143,548	(\$5,084)	\$12,623	\$7,538
NonCity	<u>5,499</u>	<u>5,491</u>	<u>(30)</u>	<u>40</u>	<u>8</u>
<b>Total</b>	<b>\$156,585</b>	<b>\$149,039</b>	<b>(\$5,114)</b>	<b>\$12,663</b>	<b>\$7,546</b>
Numbers may not add due to rounding.					

As we discussed in our prior report, the city has not demonstrated the ability to undertake such large levels of capital commitments.<sup>21</sup> The city will have to come to a decision as to how it will practically manage its capital program and efficiently carry out capital projects. A more realistic acknowledgement of the individual city agencies' logistical constraints needs to be taken into account; otherwise the capital planning process lacks credibility. It is becoming apparent the city needs to consider reducing capital commitments. In the current modification, the city projects enough debt capacity to undertake the capital plan and based on assumed costs and tax revenues the plan is affordable. However, at the current level it is uncertain if the capital plan is achievable.

#### **FYs 2022-2026 Debt Service Costs**

The portion of the city's capital program that is financed by tax-supported debt issued by the city and the New York City Transitional Finance Authority (NYCTFA) is represented in the operating budget in the form of total-funded annual debt service costs. It is the city's usual practice to use conservative assumptions to make debt service projections, which are then revised in subsequent modifications to identify savings from actual transactions. The April modification reflects routine debt service savings as well as changes to the financing schedule since the February modification for the city and the NYCTFA, amounting to \$79 million in FY 2022, \$127 million in FY 2023, \$147 million in FY 2024, \$173 million in FY 2025, and \$190 million in FY 2026, as illustrated in Table 11 on page 26.

In FYs 2022-26, the city-funded portion of debt service savings, ranging from \$62 million to \$190 million, represents a significant part of the Program to Eliminate the Gap (PEG). In FY 2022, the debt service savings recognized since the February modification account for 23 percent of the PEG. These savings add to the surplus that will be used to

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<sup>21</sup> See "Management of the Capital Program and Associated Debt" in the FCB Staff Report: February Modification FYs 2022-2026 dated March 31, 2022.

prepay FY 2023 expenses. In FYs 2023-2026, debt service savings constitute a vast portion of the program at about 90 percent in each fiscal year.

### PROJECTED TOTAL-FUNDED CITY AND NYCTFA DEBT SERVICE COSTS

TABLE 11 (\$ in millions)

	FY2022	FY2023	FY2024	FY2025	FY2026	Average Annual Growth
<b>February 2022 Debt Service</b>	<b>\$6,764</b>	<b>\$7,942</b>	<b>\$8,265</b>	<b>\$8,803</b>	<b>\$9,597</b>	<b>9.1%</b>
G.O., Lease & NYCTFA Actual & Projected Debt Service	(\$21)	(\$29)	(\$68)	(\$95)	(\$112)	
G.O. & NYCTFA Refundings	3	(72)	(71)	(71)	(71)	
Variable Rate Debt Interest	(60)	(8)	(8)	(8)	(7)	
Building Aid Excess Retention Offset	(1)	(19)	0	0	0	
<b>Debt Service Savings</b>	<b>(\$79)</b>	<b>(\$127)</b>	<b>(\$147)</b>	<b>(\$173)</b>	<b>(\$190)</b>	
<b>April 2022 Debt Service</b>	<b>\$6,685</b>	<b>\$7,816</b>	<b>\$8,119</b>	<b>\$8,630</b>	<b>\$9,407</b>	<b>8.9%</b>
Tax Revenues	\$65,642	\$66,265	\$67,937	\$69,662	\$71,090	2.0%
<b>Debt Service as a Percent of Tax Revenues</b>	<b>10.2%</b>	<b>11.8%</b>	<b>12.0%</b>	<b>12.4%</b>	<b>13.2%</b>	
Numbers may not add due to rounding.						

The decrease in total-funded debt service costs, including the actual terms of bond sales undertaken as well as projected debt service on new bond issuances, totals \$325 million and represents the largest portion of savings over FYs 2022-26. The reduction is primarily attributed to the redistribution of capital commitments. The city rolled out \$5.1 billion of commitments to outer years from the five-year capital plan. As a result, the city reduced its projected financing schedule for tax-supported issuances for general obligation (g.o.) and NYCTFA future tax secured (FTS) bonds by a total of \$1.7 billion over FYs 2022-26, with the largest reduction planned in FY 2023 at \$575 million.

Also contributing to the savings are two refunding bond sales undertaken by the city and NYCTFA, which generated a combined debt service reduction of \$282 million in FYs 2022-26. The city also recognizes variable debt savings over FYs 2022-26 totaling \$91 million. The majority of the variable rate savings, \$60 million, is realized in FY 2022. In the April modification, the variable interest rate projection for FY 2022 is reduced by 61 basis points since the prior modification. In addition to the assumed lower rate, the city and NYCTFA have not issued variable debt in the current fiscal year thereby reducing costs associated with such issuances.<sup>22</sup>

Tax revenues, the main payment source for debt service, are currently forecast to grow by an average annual rate of two percent in FYs 2022-26. In contrast, debt service costs are projected to grow at an average annual rate of 9.1 percent, over four times faster than the rate of tax revenues during this time frame. As a share of tax revenues, debt service will rise two percentage points from 10.2 percent in FY 2022 to 13.2 percent in FY

<sup>22</sup> After the release of the April modification, the city issued \$300 million of tax-exempt variable rate debt in May 2022.

2026. The annual burden is projected to remain under the affordability threshold of 15 percent.

### **III. Glossary of Acronyms**

<b>AIR</b>	Actuarial Interest Rate
<b>ARPA</b>	American Rescue Plan Act
<b>BEA</b>	Bureau of Economic Analysis
<b>BLS</b>	Bureau of Labor Statistics
<b>CUNY</b>	City University of New York
<b>CPI</b>	Consumer Price Index
<b>DOE</b>	Department of Education
<b>EITC</b>	Earned Income Tax Credit
<b>FCB</b>	Financial Control Board
<b>FEMA</b>	Federal Emergency Management Agency
<b>FICA</b>	Federal Insurance Contributions Act
<b>FTS</b>	Future Tax Secured
<b>FY</b>	Fiscal Year
<b>GCT</b>	General Corporation Tax
<b>GDP</b>	Gross Domestic Product
<b>G.O. Bonds</b>	General Obligation Bonds
<b>HASA</b>	HIV/ AIDS Services Administration
<b>NYCHA</b>	New York City Housing Authority
<b>NYCTFA</b>	New York City Transitional Finance Authority
<b>OTPS</b>	Other Than Personal Service
<b>PACT</b>	Permanent Affordability Commitment Together
<b>PEG</b>	Program to Eliminate the Gap
<b>PIT</b>	Personal Income Tax
<b>PTET</b>	Pass-Through Entity Tax
<b>RAD</b>	Rental Assistance Demonstration
<b>SALT</b>	State and Local Tax
<b>STAR</b>	School Tax Relief



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